



City of Detroit

OFFICE OF THE AUDITOR GENERAL

**Audit of the
Detroit City Council**

December 2003

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*Findings appeared in the prior audit report dated May 21, 1998.



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MEMORANDUM

DATE: December 23, 2003
TO: Honorable City Council
FROM: Joseph L. Harris
Auditor General *Joseph Harris*
RE: Audit of the Detroit City Council
C: Mayor Kwame M. Kilpatrick

Attached for your review is our report on the audit of the Detroit City Council.

This report contains our audit purpose, scope, objectives, and methodology; background; and our audit findings and recommendations. The City Council did not provide a written response to our audit report prior to its publication date.

We appreciate the assistance we received from City Council staff.

AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Purpose

This audit of the Detroit City Council was performed under the Office of the Auditor General's (OAG) Charter mandate to audit financial transactions of all City agencies. The OAG performed an audit of the adequacy of internal control procedures to properly record transactions of payroll, cash receipts, voucher disbursements, fixed assets, and imprest cash; as well as compliance with year-end closing procedures.

Audit Scope

We performed an assessment of the Detroit City Council's control procedures for transactions of payroll, cash receipts, voucher disbursements, fixed assets, and imprest cash, and determined that there are certain weaknesses in the system of control. We focused our audit on the weaknesses discovered during the assessment, the status of the prior audit findings, and compliance with year-end closing procedures.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external quality review of the Office of the Auditor General within the last three years.

Audit Objectives

Our audit of the Detroit City Council had the following objectives:

1. To assess City Council's internal controls relating to:
 - i. Current financial operations, and
 - ii. Compliance with policies, plans, procedures, laws and regulations
2. To determine whether City Council has adequate internal accounting controls
3. To determine whether City Council implemented the prior audit recommendations or otherwise resolved the findings.

Audit Methodology

To accomplish the audit objectives, our audit work included the following:

- We reviewed City directives, policies, and procedures, and interviewed City Council staff to gain an understanding of City Council's internal controls.
- We evaluated internal controls for payroll, cash receipts, voucher disbursements, fixed assets, and imprest cash.
- We examined a judgmental sample of transactions that we considered satisfactory to achieve our objectives.

BACKGROUND

As provided by the City Charter, the City Council is the legislative body of the City of Detroit. It consists of nine members elected at large for a four-year term. Its functions include enactment of ordinances governing the City; a general monitoring of the executive branch's performance; review and approval of the City's budget; and other matters set forth in State laws, the City Charter, and City ordinances.

The Detroit City Council also includes:

1. The City Planning Commission, which advises City Council on matters pertaining to physical, social, and economic development;
2. The Research and Analysis Division, which investigates, researches, and analyzes matters referred by City Council;
3. The Historic Designation Advisory Board, which advises City Council on matters relating to historic preservation; and
4. The Fiscal Analysis Division, which analyzes and makes recommendations on fiscal matters, particularly those relating to the City's budget.

Revenue and expenditures of City Council are presented in the Comprehensive Annual Financial Report of the City of Detroit as part of the General Fund and Community Development Block Grant Fund.

Budgeted appropriations totaled \$12.9 million for the 2001-2002 fiscal year, with a budgeted staff level of 104. Budgeted appropriations were \$14.1 million for the 2002-2003 fiscal year with a staffing level of 106.

FINDINGS AND RECOMMENDATIONS

Findings marked with an asterisk (*) signify that the finding and related recommendation appeared in the previous Auditor General report. The date shown in parenthesis indicates the audit report in which the recommendation or part thereof first appeared.

***1. Attach Supporting Documentation to Payment Vouchers:**

(May 21, 1998) During our examination of selected voucher disbursement transactions, we noted several purchases were not supported by proper documentation. Specifically, payments were not supported by invoices and receiving reports.

An effective internal control system requires procedures for adequately documenting and verifying the receipt of goods before making payment.

We recommend the City Council's administrative office begin the practice of attaching invoices, receiving reports, and other supporting documentation applicable to payment vouchers to its agency file copies.

***2. Allow Personal Services Contractors to Start Work Only After Contract Is Formally Approved by City Council:**

(May 21, 1998) We reviewed contracts and time records for personal services contractors and noted that some personal services contractors commenced work prior to formal approval of their contract by City Council. Of thirteen personal services contracts reviewed, ten of the contractors started work prior to formal approval of their contracts.

Section 18-5-5 of the City of Detroit Code requires all contracts for personal services be approved by City Council in order to be valid. In addition, provision 5.01 of the City's standard Individual Personal Services Contract states: "The contract will be deemed to be awarded only after the formal approval by a resolution of City Council ... and the contractor will have no authority to start work prior to the award of the contract."

We recommend City Council comply with Section 18-5-5 of the City of Detroit Code by allowing personal services contractors to start work only after obtaining City Council's formal approval of their contract.

3. Deposit All Cash Receipts Within 48 Hours of Collection:

The City Planning Commission receives revenue for sales of computer-generated maps, fees relating to rezoning requests, and sales of copies of the new zoning ordinance on a compact disc. We noted that revenue received from these sources was not being deposited on a timely basis.

The likelihood of errors and possible theft increases when cash receipts are not deposited in a timely manner. Finance Directive No. 20 requires that cash receipts be deposited and recorded in DRMS as cash receipts within 48 hours of after receipt.

We recommend the City Planning Commission comply with Finance Directive No. 20, and deposit all cash receipts within 48 hours of collection, or obtain a waiver of such requirement from the Finance Department.

4. Develop and Implement Procedures to Preclude the Practice of Overspending Appropriations:

In our examination of the financial information for City Council, we noted that for two consecutive fiscal years, the expenditures of one City Council Member exceeded the appropriated budget, resulting in a deficit or negative balance for the fiscal years ended June 30, 2002 and June 30, 2003.

The deficit is primarily due to expenditures for personal service contracts exceeding the budgeted amount. Controls that typically prevent this over-expenditure are effectively circumvented when the terms of contracts for personal services extend beyond the end of a fiscal year. The City Council has not implemented a compensating control, such as the periodic and frequent monitoring of expenditures for personal services contracts.

The City's annual budget constitutes the planned or expected financial position for a fiscal year based on estimates of the expenditures to be made by the City along with estimates of the revenues to be realized from various sources of income that will be available to pay for these expenditures. A deficit in an appropriation creates an imbalance that can only be resolved by transferring funds from other appropriations. These unexpected transfers may have a deleterious effect on management's planning and budgeting.

Expenditure controls should exist to ensure that expenditures do not exceed budgeted appropriations.

We recommend that City Council implement accounting controls to prevent Council Members from overspending their respective appropriations. These controls must include procedures that monitor and limit expenditures for personal service contracts. We also recommend that Council Members discontinue the practice of entering into personal services contracts with terms that extend beyond the end of the fiscal year.

NONCOMPLIANCE ISSUES

In addition to the foregoing findings and related recommendations, we noted the following instances of noncompliance with established City policy, pertaining to imprest cash and fixed assets:

1. The Historic Designation Advisory Board did not perform an audit of its imprest cash fund at least once every three months as required by the City's Imprest Cash Manual.
2. City Council has not conducted an annual physical inventory of its capital assets in over two years. In addition, City Council could not provide documentation of the last physical inventory count performed. The City of Detroit Finance Department's Capital Asset Policy Guide & Procedures establishes that each department shall conduct an annual physical count of its capital assets. This process also includes the update and retention of accurate records of the agency's assets.

City Council should implement procedures to correct the above conditions to ensure compliance with established City policy.